

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 L-03 AID-05 CIAE-00 EB-08
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TO SECSTATE WASHDC 5240
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AMCONSUL CALCUTTA
AMCONSUL MADRAS

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E.O. 11652: N/A
TAGS: EINV, BGEN, IN
SUBJECT: COCA COLA DIFFICULTIES IN INDIA RESULTIN SHUTDOWN

SUMMARY: INDIAN PRESS HAS GIVEN WIDESPREAD ATTENTION DURING LAST WEEK TO DIFFERENCES BETWEEN GOI AND COCA-COLA CORP OVER COMPANY'S DILUTION TO 40 PERCENT U.S. OWNERSHIP UNDER FOREIGN EXCHANGE REGULATIONS ACT AND OTHER QUESTIONS REGARDING COMPANY'S FUTURE IN INDIA. OUTLINE OF PRESENT SITUATION, AS GIVEN BY COCA COLA'S VICE PRESIDENT & AREA MANAGER FOR INDIA KISHAN MEHTA FOLLOWS. WE BELIEVE THAT FORCED WITHDRAWAL OF COCA COLA FROM INDIA WOULD HAVE ADVERSE IMPACT ON US BUSINESS CLIMATE IN INDIA, OWING TO WIDE-SPREAD PUBLICITY WHICH SUCHA DEVELOPMENT WOULD ATTRACT. SITUATION IS, HOWEVER, EMOTIONALLY CHARGED AND IT MAY PROVE DIFFICULT FOR GOI TO SHOW MUCH FLEXIBILITY IN COCA COLA'S CASE. MEHTA IS PESSIMISTIC OVER FUTURE PROSPECTS FOR COCA COLA HERE. END SUMMARY.

1. FOLLOWING RECENT PRESS ATTENTION TO COCA COLA'S LONG STANDING PROBLEMS IN INDIA, COMMERCIAL COUNSELOR SPOKE WITH COCA COLA'S
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SENIOR EXECUTIVE KISHAN MEHTA, ON AUGUST 5. MEHTA, WHO HAS BEEN INVOLVED IN SERIES OF MEETINGS WITH COCA COLA BOTTLERS OVER THE PAST WEEK, PAINTED A GLOOMY PICTURE FOR COCA COLA'S FUTURE PROSPECTS HERE. HE RECALLED THAT COCA COLA HAD SET UP CONCENTRATE PLANT IN INDIA IN 1958 AT REQUEST OF GOI, ORDER TO SAVE FOREIGN EXCHANGE, WITH CLEAR UNDERSTANDING THAT FORMULA MUST REMAIN SECRET, AS PART OF WORLD WIDE COCA COLA POLICY, AND THAT COMPANY MUST

REMAIN WHOLLY OWNED SUBSIDIARY WITH JOINT VENTURE ASPECT OF RELATIONSHIP TO INDIAN BUSINESS COMMUNITY FULFILLED THROUGH CLOSE AND UNIQUE RELATIONSHIP TO NUMEROUS COCA COLA BOTTLING PLANTS, WHICH ARE 100 PERCENT INDIAN-OWNED.

2. FOREIGN EXCHANGE REGULATION ACT (FERA) OF 1973 REQUIRING THAT NON-ESSENTIAL AND NON-EXPORT ORIENTED FIRMS DILUTE FOREIGN OWNERSHIP TO 40 PERCENT PRESENTED GREAT DIFFICULTIES TO COCA COLA, WHICH AFTER LONG NEGOTIATIONS HAD WORKED OUT SCHEME FOR DIVIDING ITS CONCENTRATE FIRM INTO TWO NEW ENTITIES. MAIN FIRM, TO BE CONCERNED WITH PRODUCTION AND DISTRIBUTION, WOULD BE DILUTED TO 40 PERCENT U.S. OWNERSHIP IN ACCORDANCE FERA REQUIREMENTS BUT WOULD BE SUPPLIED BY SMALL "QUALITY CONTROL" FIRM CONSISTING OF 3 OR 4 CHEMISTS, COLLOCATED WITH PRODUCTION FIRM, WHICH WOULD REMAIN 100 PERCENT U.S. OWNED AND IN SOLE POSSESSION OF CONCENTRATE FORMULA.

3. MEHTA HAS HEARD FROM CONFIDENTIAL SOURCES THAT GOI WILL REJECT COCA COLA'S SCHEME FOR BIFURCATION OF COMPANY AND PRESERVATION SECRECY OF AND CONTROL OVER COCA COLA FORMULAM AND INSIST ON UNQUALIFIED DILUTION TO 40 PERCENT AND HANDING OVER OF FORMULA.

4. IN ADDITION GOI IS REQUIRING THAT COCA COLA INCREASE VALUE OF CONCENTRATE EXPORTED FROM INDIA TO 20 TIMES VALUE OF THE RAW MATERIALS IMPORTED FOR CONCENTRATE. COCA COLA CORP. CEASED CONCENTRATE EXPORT FROM INDIA IN 1973 OWING TO WHAT FIRM CONSIDERED LIMITED OFFICIAL USE

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AS UNFOUNDED GOI CHARGE THAT FIRM WAS UNDER INVOICING EXPORTS AND CONSEQUENTLY NOT REPORTING CORRECT EXPORT PROFITS, ON WHICH GOI THEN LAID LARGE TAX CLAIM.

5. OWING TO WHAT GOI CONSIDERS AS FAILURE TO CONFORM TO FERA GUIDELINES, COCA COLA LICENSE TO IMPORT RAW MATERIALS FOR CONCENTRATE WAS NOT RENEWED IN JANUARY 1977. RAW MATERIALS SUPPLY CONSEQUENTLY EXHAUSTED BY JUNE 1977 AND FIRM HAS BEEN OUT OF PRODUCTION SINCE THAT TIME. CONCENTRATE STOCKS IN HANDS OF BOTTLERS HAVE ALSO NOW BEEN ALMOST EXHAUSTED AND MOST BOTTLING PLANTS HAVE ALSO CLOSED DOWN. COCA COLA PRODUCTION IN INDIA WILL CEASE TOTALLY IN ABOUT TWO WEEKS ACCORDING TO MEHTA

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R 060923Z AUG 77
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6. DURING LAST FEW DAYS GOI MINISTRY OF INDUSTRY APPEARS TO HAVE LAUNCHED A NEW SCHEME FOR REPLACEMENT OF COCA COLA CONCENTRATE BY A NEW COLA-TYPE CONCENTRATE DEVELOPED BY CENTRAL FOOD TECHNICAL RESEARCH INSTITUTION (CFTRI) TO BE PRODUCED BY MODERN BAKERIES, A PUBLIC SECTOR FIRM. BOTTLERS ARE BEING URGED BY MINISTRY TO WIT SWITCH OVER TO CFTRI FORMULA CONCENTRATE DURING NEXT SIX MONTHS, WITH GOI IN MEAN-TIME APPROVING LICENSE FOR LIMITED QUANTITY RAW MATERIALS FOR COCA COLA, IN ORDER TO TIDE OVER BOTTLERS DURING TRANSITION PERIOD.

7. AMONG SEVERAL FACTORS MILITATING AGAINST COMPRO-MISE BETWEEN GOI AND COCA COLA APPEAR TO BE STRONG LOBBYING OF INDIAN SOFT DRINK FIRMS SUCH AS PARLE AGAINST COCA COLA INTERESTS. CAMPAIGN IN LOCAL PRESS SUPPORTED BY THESE FIRMS HAS MAGNIFIED COCA COLA CASE INTO ONE WITH EMOTIONAL OVERTONES IN A COUNTRY WHERE ADVERSE REACTION TO ACTIVITIES OF MULTI-LIMITED OFFICIAL USE

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NATIONAL COMPANIES IS VERY WIDESPREAD.

8. ALSO LENDNG EMOTIONAL OVERTONES TO COCA COLA PROBLEM WAS FIRM'S DECISION TO REPLACE AREA MANAGER KISHAN MEHTA WITH AN AMERICAN CITIZEN FOLLOWING MEHTA'S PROJECTED PROMOTION AND TRANSFER TO NEW YORK OFFICE. COCA COLA HAS PERSISTED IN THIS APPOINTMENT DESPITE UNIVERSALVIEW HERE THAT MANY INDIAN NATIONALS QUALIFIED FOR JOB AND NEW US MANAGER SCHEDULED TO

ARRIVE EARLY NEXT WEEK. MEHTA, WHO PERSONALLY LOOKING FORWARD KEENLY TO HIS TRANSFER TO NEW YORK, IS GENERALLY DEPRESSED CONCERNING PROSPECTS FOR ANY KIND OF EFFECTIVE LONG-TERM COMPROMISE ON FERA AND OTHER ISSUES BETWEEN GOI AND COCA COLA. HE PERSONALLY BELIEVES THAT EVEN IF COCA COLA GIVES IN ON FERA DILUTIONS AND FORMULA SECRECY ISSUES, WHICH IT IS UNLIKELY TO DO, NEW CONDITIONS WOULD ONLY BE ADDED BY GOI. COMPANY'S OFFICIAL POLICY IS THAT IT WILL NOT PULL OUT OF INDIA, WHERE IT HAS BEEN FOR MORE THAN 30 YEARS, UNLESS IT IS ABSOLUTELY FORCED TO DO SO. MEHTA ADDS HOWEVER, THAT PROFITS WERE DOWN TO \$400 THOUSAND LAST YEAR FROM HIGH OF \$1 MILLION IN 1972 AND THAT, IN ANY EVENT, PROFITS NOT COVERED BY EXPORTS MUST BE RETAINED IN COUNTRY, IN ACCORDANCE WITH A 1974 AGREEMENT WITH GOI. THUS COCA COLA WOULD HAVE LITTLE BUT ITS INTERNATIONAL PRESTIGE TO LOSE FROM PULL-OUT FROM INDIA, WHICH MAY WELL BE FORCED UPON IT IN THE COMING MONTHS.

COMMENTS: MEHTA'S PESSIMISM SEEMS TO BE SUPPORTED BY LATEST DEVELOPMENTS IN COCA COLA CASE. ON AUGUST 5, IN REPLY TO QUESTION ASKED IN LOK SABHA, COMMERCE MINISTER MOHAN DHARIA STATED THAT THE "QUALIFIED CON-

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SENT" GIVEN BY COCA COLA TO FERA DILUTION REQUIREMENTS WAS "NOT ACCEPTABLE TO THE GOVERNMENT". TO REPORTED CHEERS FROM BOTH SIDES OF HOUSE, DHARIS SAID "DETERMINED ACTION" WOULD BE TAKEN AGAINST COMPANY. HE ALSO COMMENTED UNFAVORABLY ON VERY SMALL SIZE EXPORTS IN 1976-77 IN COMPARISON WITH IMPORTS OF CONCENTRATE INGREDIENTS AS WELL AS ON RS 10 CRORES (ABOUT US \$11 MILLION) REMITTANCES SENT ABROAD BETWEEN 1950 AND 1974 OVER WHICH HE WAS "ASTONISHED". GOHEEN

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Message Attributes

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